

HERITAGE LAKE ASSOCIATION, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors and Members
Heritage Lake Association, Inc.

We have compiled the accompanying balance sheet of Heritage Lake Association, Inc. (a corporation) as of December 31, 2005 and 2004, and the related statements of operations and retained earnings and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

We are not independent of Heritage Lake Association, Inc.

Donald M. Heinold, CPA, P.C.

Donald M. Heinold, CPA, P.C.

January 12, 2006

BALANCE SHEETS

December 31, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:		
Cash	\$ 133,466	\$ 120,879
Cash designated for emergency purposes	5,000	5,000
Cash held as construction security deposits	2,340	16,113
Accounts receivable:		
Lot owner assessments	21,021	19,120
Lake fund charge	5,650	7,736
Road fund charge	6,194	6,147
Other receivables	15,367	7,110
Less allowance for doubtful accounts	<u>(20,250)</u>	<u>(22,000)</u>
Net accounts receivable	27,982	18,113
Prepaid expenses	<u>1,900</u>	<u>1,900</u>
Total current assets	170,688	162,005
PROPERTY AND EQUIPMENT	<u>428,935</u>	<u>452,345</u>
TOTAL ASSETS	<u>\$ 599,623</u>	<u>\$ 614,350</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long term debt	\$ 25,749	\$ 24,094
Accounts payable - trade	4,483	2,061
Construction security deposits of members	2,350	9,592
Accrued liabilities	<u>1,429</u>	<u>1,168</u>
Total current liabilities	34,011	36,915
LONG-TERM LIABILITIES	<u>98,117</u>	<u>124,404</u>
TOTAL LIABILITIES	132,128	161,319
STOCKHOLDERS' EQUITY:		
Contributed capital	272,902	272,902
Retained earnings	<u>194,593</u>	<u>180,129</u>
Total stockholders' equity	<u>467,495</u>	<u>453,031</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 599,623</u>	<u>\$ 614,350</u>

See accompanying accountant's compilation report.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating income:		
Assessments	\$ 191,364	\$ 182,336
Road fund charge	44,463	42,659
Lake fund charge	33,684	33,396
Permits, fees and other operating income	36,865	36,269
Gain on sale of fixed assets	-	-
Fundraising income	3,287	-
Investment income	7,111	6,393
	<u>316,774</u>	<u>301,053</u>
Operating expenses:		
General and administrative	118,445	118,572
Property owner services	11,285	8,125
Conservation	5,817	4,805
Campgrounds	3,619	1,115
Sports Complex	278	-
Beach	7,146	4,394
Maintenance and repairs	112,806	76,291
Lodge and pool	42,181	37,954
	<u>301,577</u>	<u>251,256</u>
Net income from operations before income taxes	15,197	49,797
Income tax expense	733	912
Net income	14,464	48,885
Retained earnings, beginning of the year	<u>180,129</u>	<u>131,244</u>
Retained earnings, end of the year	<u>\$ 194,593</u>	<u>\$ 180,129</u>

HERITAGE LAKE ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 14,464	\$ 48,885
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	32,077	34,365
(Increase) decrease in operating assets:		
Accounts receivable	(9,869)	(2,533)
Increase (decrease) in operating liabilities:		
Accounts payable - trade	2,422	(142)
Accrued liabilities	261	(7,767)
	39,355	72,808
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(8,668)	(15,256)
Change in cash held as construction security deposits	6,532	-
	(2,136)	(15,256)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	-	-
Payments on long term debt	(24,632)	(22,296)
	(24,632)	(22,296)
Increase in cash	12,587	35,256
Cash, beginning of the year	120,879	85,623
Cash, end of the year	\$ 133,466	\$ 120,879
Supplemental Data:		
Cash paid during the year for Interest expense	\$ 8,346	\$ 10,085

1. Summary of Significant Accounting Policies

Organization - Heritage Lake Association, Inc. ("Association") is a corporation organized under the General Not for Profit Corporation Act of Illinois. The purpose of the Association is to: promote pleasure, social recreation and sports activities for its members, their families and guests, and maintain a recreationally oriented environment in Heritage Lake subdivision, Mackinaw Township, Tazewell County, Illinois; provide a means for operating, maintaining, repairing and replacing the streets, parks, lakes, recreational areas and facilities and other amenities owned by the Association; and provide a means for governing the use and enjoyment of the Association's properties.

Assessments - Each lot owner in Heritage Lake subdivision is a member of the Association and is assessed annually by the Association. Assessments must be used for the purpose of promoting the recreation, health, safety and welfare of the Association's members, and improving and maintaining the Association's properties. In accordance with the by-laws no portion of the assessments is required to be allocated for future major repairs and replacements; however the Association has been working toward upgrades of existing amenities by using a portion of the assessments for such repairs. Future forecasting and budgeting will require consideration of major repairs and replacements. Assessments are determined prior to February 1 each year by the Board of Directors, and are payable on or before March 1. Each lot was assessed at the rate of \$180 and \$170 for 2005 and 2004, respectively. Delinquent accounts are charged penalties computed at the rate of seven percent (included in assessment income in the financial statements) and may be subject to various lien and collection fees.

Road Fund Charges - During 2005 and 2004, each property owner was charged a fee of \$64.93 and \$63.22, respectively, to assist in covering the cost of road repairs and maintenance. In accordance with the by-laws and prior to June 1 these charges are adjusted for cost of living. These charges are payable on or before August 15. Delinquent accounts are charged penalties computed at the rate of seven percent (included in road fund income in the financial statements) and may be subject to various lien and collection fees.

Lake Fund Charges - During 2005 and 2004, each property owner was charged a fee of \$49.90 and \$48.59, respectively, to assist in covering the cost of significant lake improvements (i.e. Lake dredging and dam repair). In accordance with the by-laws and prior to April 1st these charges are adjusted for cost of living. Delinquent accounts are charged penalties computed at the rate of seven percent (included in lake fund income in the financial statements) and may be subject to various lien and collection fees.

1. Summary of Significant Accounting Policies (cont'd)

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Association considers all short-term securities purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment – Generally, all property and equipment owned by the Association is recognized as an asset in the financial statements. Property and equipment are stated at cost. Depreciation is computed primarily using the applicable tax method which allows for accelerated depreciation over the estimated useful lives of the assets. Estimated useful lives range from three to thirty-one years. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized. Depreciation expense for the years ended December 31, 2005 and 2004 was \$32,077 and \$34,365, respectively.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

2. Designated Cash

In April 1989 the Board of Directors established a reserve account to be used for emergency purposes. At December 31, 2005 and 2004 the reserve balance was \$5,000.

3. Property and Equipment

A summary of property and equipment follows:

	Cost at December 31, <u>2005</u>	2004	Estimated Useful Lives (Years)
Land improvements	\$256,325	\$251,453	7 – 15
Buildings	175,445	175,445	7 – 31
Machinery and equipment	85,903	84,430	3 – 10
Transportation equipment	60,529	60,529	5
Office equipment	<u>17,223</u>	<u>14,902</u>	5
	595,425	586,759	
Less accumulated depreciation	<u>359,434</u>	<u>327,358</u>	
	235,991	259,401	
Subdivision lots	31,000	31,000	
Common properties – land	<u>161,944</u>	<u>161,944</u>	
	<u>\$428,935</u>	<u>\$452,345</u>	

4. Notes Payable

Note payable, bank – dated March, 2003, original amount of \$29,047, secured by vehicle. Due in monthly installments of \$564.55, including interest at 6.25% per annum. Final payment due March, 2008. Principal balance \$13,697.

Note payable, bank – dated September, 2003, original amount of \$146,000, secured by 28 lots. Due in annual payments of \$26,237.44, including interest at 6.09% per annum. Final payment due September, 2008. Principal balance \$110,169.

4. Notes Payable (cont'd)

Maturities of long-term debt are as follows:

<u>For the Year</u> <u>Ended December 31</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 7,168	\$ 25,749	\$ 32,917
2007	5,617	27,301	32,918
2008	<u>4,105</u>	<u>70,816</u>	<u>74,921</u>
	<u>\$16,890</u>	<u>\$123,866</u>	<u>\$140,756</u>

5. Income Taxes

The Association filed its federal income tax return under Internal Revenue Code (IRC) Section 277 in 2005 and 2004. The income tax liability for the years ended December 31, 2005 and 2004 was \$733 and \$912, respectively.

6. Operating Lease

The Association leases a printer under an operating lease with the following commitments:

2006	<u>\$356</u>
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Total lease expenditures for the years ending December 31, 2005 and 2004 were \$1,499 and \$1,423 respectively.

7. Deposit Accounts

At various times during the year, the Association's cash in bank balances exceeded Federally insured limits. At December 31, 2005 and 2004, the Association's uninsured cash balances were \$33,466 and \$20,879 respectively. Contract provisions between the Association and First Security Bank require that balances exceeding the insured limits are properly secured. Subsequent to year end, adequate security has been pledged by the bank to cover balances over insured limits.

OPERATING EXPENSES

For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
General and administrative:		
Bookkeeping/secretarial	\$ 15,360	\$ 18,076
Payroll taxes	7,297	5,342
Depreciation	32,077	34,365
Insurance	12,057	11,789
Professional fees	2,704	6,467
Telephone	792	831
Office supplies and expense	6,441	4,693
Property taxes	1,641	1,543
Contract bookkeeping/audit services	17,800	5,360
Fundraising	2,932	-
Postage	3,644	3,598
Garbage service	1,236	1,086
Bad debts	3,558	12,876
Interest expense	8,346	10,085
Miscellaneous	2,560	2,461
	<u>118,445</u>	<u>118,572</u>
Property owner services:		
Enforcement	7,367	5,493
Newsletter	2,518	1,700
Other	1,400	932
	<u>11,285</u>	<u>8,125</u>
Conservation:		
Electricity	1,353	1,164
Restock fish	744	712
Lake and dam upgrades	592	-
Other	3,128	2,929
	<u>5,817</u>	<u>4,805</u>
Campgrounds:		
Electricity	957	856
Other	2,662	259
	<u>3,619</u>	<u>1,115</u>
Beach	7,146	4,394
Sports Complex	278	-

OPERATING EXPENSES

For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Maintenance and repairs:		
Fuel	\$ 4,219	\$ 3,459
Mowing	18,217	5,036
Snowplowing	4,124	324
Supplies	9,073	8,356
Salaries	40,703	33,002
Equipment	16,918	4,595
Roads	16,079	18,873
Other	3,473	2,646
	<u>112,806</u>	<u>76,291</u>
Lodge and pool:		
Natural gas	2,761	1,773
Lifeguards	5,614	4,907
Pool manager	4,549	4,372
Chemicals	3,125	3,898
Lodge repairs and maintenance	8,062	10,626
Pool repairs	8,846	4,233
Electricity	4,344	4,202
Water	483	343
Other	4,397	3,600
	<u>42,181</u>	<u>37,954</u>
	<u>\$ 301,577</u>	<u>\$ 251,256</u>